



August 23, 2000

Honorable Richard H. Baker
Chairman, Subcommittee on Capital Markets, Securities
and Government Sponsored Enterprises
Banking and Financial Services Committee
U. S. House of Representatives
434 Cannon Building
Washington, D.C. 20515

Dear Chairman Baker:

Thank you for your letter of August 14, 2000, inviting us to participate in your upcoming roundtable discussion of GSE issues. We appreciate the opportunity to present the views of our nations' community bankers.

In accordance with your invitation, this letter provides our comments on H.R. 3703. Also attached is a copy of a letter sent to you on July 19, 2000, by ICBA's president, Thomas J. Sheehan, which spells out our position in greater detail.

Consolidation of Regulators

H.R. 3703 calls for the consolidation of the regulators of Fannie Mae, Freddie Mac and the Federal Home Loan Banks. Although each of these GSEs was initially established to support residential housing, the purpose of the Federal Home Loan Banks has expanded beyond the narrow housing mission of Fannie Mae and Freddie Mac. Therefore, we believe the Federal Home Loan Banks should have their own regulator that can focus on their special mission and lines of business.

Repeal GSE Lines of Credit

H.R. 3703 repeals the Treasury lines of credit to the GSEs. The ICBA strongly opposes this provision. Should these lines be eliminated, the cost of mortgages and advances would likely increase, resulting in higher mortgage rates and other loan rates. As evidence, we would note the disruption of the financial markets' caused by the mere suggestion by Undersecretary Gensler before your Subcommittee on March 22, 2000 of less government backing of the GSEs' securities. This kind of disruption hurts borrowers and investors.

Prior Approval Requirements

H.R. 3703 imposes new prior approval requirements on the GSEs. We oppose these new requirements. The GSEs should not be disadvantaged by requirements that do not apply to the private sector, unless it is necessary for safety and soundness purposes. We believe these prior approval requirements could make it more difficult to introduce new financial products to underserved populations that have been passed over by private sector lenders.

Removal of Super Lien Authority

H.R. 3703 abolishes the Federal Home Loan Banks' super lien authority. The ICBA strongly opposes this as it will raise the cost of funds to Federal Home Loan Bank members and as a result, to consumers, and hamper the Federal Home Loan Banks' ability to provide liquidity to its members.

We appreciate the opportunity to participate in this important roundtable discussion and will furnish your office with the name of our participant when a date for the roundtable is set.

Sincerely,

Kenneth A. Guenther
Executive Vice President

Attachment